

PROMOTING INDUSTRIAL ZONES AND INVESTMENT MOBILIZATION USAID WB/G SO1: EXPANDING ECONOMIC OPPORTUNITIES CONTRACT No. 294-C-00-00071-00

PICTI Trip Report - Dinyar Lalkaka & Julian Webb

SUBMITTED ON

JULY **23**, **2003**

TO THE

USAID M ISSION TO THE WEST BANK AND GAZA

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Trip Report

This trip report describes the activities and results of our initial field mission. It annexes several presentations that we delivered to PICTI stakeholders and to USAID, as well as sample incubator application forms (the "model concept papers" referred to in the SOW). Additional samples are available in a book on model incubator documents left in the PRIZIM office, along with copies of other materials, such as examples of by laws, conflict of interest policies, board management protocols, and summaries of best practices.

Stakeholder Relations

As expected, the relationships between PICTI's sponsors have not yet been fully defined. The cohesiveness of the founders and management team is a critical success factor for incubators, just as it is for other businesses. This issue must be adequately resolved to avoid future operational problems for PICTI. Our approach has been to bring the sponsors together in an effort to adapt good practices in business incubation to the concrete situation in Ramallah.

Structure and Implications of Prospective USAID Support

We understand that commitments totaling \$2.8 million had been made to PICTI (a relatively small amount of \$137,900 in cash and cash equivalent) and to its associated venture capital fund (a much larger amount of 2.7M) by Massar, PITA and its members, PBC, and the Palestinian Investment Fund. We further understand that USAID's Global Development Alliance (GDA) - which leverages non-governmental resources for development - is likely to contribute to PICTI 50 percent (i.e., \$1.2 million) of the funding raised locally. While USAID-GDA interest in PICTI is of course a very positive development, we see some potential problems in the model that the proposed arrangement implies.

First, and most fundamentally, there is an uneasy marriage between the for-profit venture capital component and the not-for-profit incubator. Although the incubator is intended to be not-for-profit, its close link with the venture capital fund pushes it towards a for-profit, venture capital-like model of incubation. This incubation model, based on equity investment in client companies, looks good on paper but has proven a failure in international practice. Non-profit incubation is a viable model, but in our experience, sponsors of non-profit incubators do not make money from them directly. It could be argued that sponsors profiting directly from a non-profit defeats the purpose. This is not to say that other members of the broader incubator community (e.g., armslength VCs, consultants, etc.) should not or cannot make money from work with non-profit incubators; given appropriate governance arrangements (e.g., conflict of interest policies), stakeholders and sponsors can also be permitted to benefit financially, to the extent compatible with good incubator practice and with the concurrence of the incubator's board.

At the end of our visit, stakeholders seemed to agreed that the VC fund should be separate from PICTI, with a dedicated amount set aside for seed funding of PICTI clients. The PICTI and the VC fund would be linked via representation of PICTI on the VC Fund investment committee (possibly by the PICTI General manager, if he/she has some competence with venture financing) and by Massar participating as a founding sponsor of PICTI.

Second, from the point of view of the VC fund, finding suitable investment opportunities in West Bank/Gaza is likely to be challenging under the best of circumstances. Suitable investments may be relatively mature firms and may not all be in the IT sector. To require that the VC fund invest only in incubated companies would artificially and unnecessarily limit its scope, even if the focus of PICTI were expanded to include more mature firms. On the other hand, if there were no direct linkage between the VC fund and the incubator, it must be determined whether the project would still qualify for GDA funding.

Third, while we have not yet analyzed the numbers in detail for this project, our initial assessment based on experience in many similar projects and feedback on costs in West Bank/Gaza is that \$1.2 million would not be sufficient to see PICTI through to financial self-sustainability. Additional resources will need to be mobilized. This leads into the next point regarding incubator business models and sustainability.

Incubator Business Models and Sustainability

Startup firms worldwide are reluctant or unable to pay market rates for professional services and often even workspace. Non-profit incubators therefore typically provide services and sometimes workspace at below-market prices. The difference between the market and below-market price has to be made up somehow for the incubator to be sustainable. For a non-profit incubator, there are essentially two roads to sustainability.

In the first model, the incubator receives a building at no or low cost, or pays only token rent. The recurring income stream from this property serves as an annuity that subsidizes the incubator's ongoing operations. In practice, most such buildings are underutilized facilities such as former factories, warehouses, schools, etc. that have a low opportunity cost to the giver, but can be repurposed and utilized more effectively by an incubator. Rights to such properties are typically passed to incubators by public entities, or sometimes, by private developers in consideration for benefits received from public entities (such as tax abatements, variances, etc.). A more expensive but even better option is to secure sufficient funding to purchase a building or construct a dedicated incubator building on land donated by a public body. This can result in an "ideal" building with a high public profile to maximi ze the "lighthouse effect". It is fair to say that most incubators worldwide are based on some variant of this model. The advantage of this model is that once the property or long-term, low-rent lease is acquired, it is not easily taken away, and the incubator has a fairly secure annuity.

The second model calls for an ongoing cash subsidy. Real estate is leased on commercial terms, and a third party, typically a public sponsor, makes up the incubator's operating loss. This is a conceptually cleaner model, but in practice requires incubator management to spend much of its time fundraising. Furthermore, changes in local government policy can y risk bringing the incubator to its knees.

For PICTI to be sustainable, it should adopt one of these two models, preferably the former. Ideally, a building in a suitable location and with a suitable layout would be provided at no cost to PICTI.

There is a third incubator model, the for-profit model of venture capital-like equity investment in client companies, where equity appreciation followed by liquidation creates an income stream. In its pure form, this model has failed. Of the approximately 450 for-profit incubators established on this model between 1999 and 2001, virtually all have failed. However, it is possible to graft some elements of this model on a small scale onto a non-profit model. For example, an incubator may take a small equity stake of 2-5% in incubated firms, in consideration for subsidized rent and services. This allows the incubator to participate in some of the potential upside of the equity model without staking its financial future on it. PICTI could well consider such arrangements.

There is an additional issue related to the above discussion of business models and sustainability that deserves consideration: Non-profit incubators are usually sponsored by public entities or in public-private partnerships between local government and NGOs and/or private businesses. Local government sponsor non-profit incubators through mechanisms such as grants of underutilized land and buildings because the incubators serve the local community, whose interests local government is supposed to represent, and because by increasing tax revenues, incubators directly benefit local government. However, in the case of PICTI, none of the present sponsors is a genuinely public entity. Massar and PBC are for-profit businesses, and PITA is a non-profit association of for-profit businesses. It may be worth exploring the possibility of bringing a compatible public partner on board as a sponsor, especially if it can provide no or low cost land or land and building.

Minimum Scale

Another important element of sustainability is economies of scale. For most incubators, rent constitutes 40-60 percent of revenue (in a "free" building). This means there is a minimum scale required for self-sustainability and to be able to afford to provide quality value-adding services to clients. In the USA and Europe, this is minimum size is generally 3,000 to 4,000 m², in China it is 6,000 to 10,000 m², and in Australia and New Zealand it is 1,500 to 2,000 m². The current plan is for PICTI to rent 900 m². This is an acceptable interim step, but in the medium- to longer-term, larger premises will be required. An appropriate scale for Ramallah can only be confirmed by good financial modeling. Should the demand not exist now in the target market to justify a viable minimum scale, surplus space can be rented to anchor tenants, which feature in most incubators. Consideration could also be given to redefining the target market

Business Development Services

Good business development services are one of the most important features of quality business incubators. Typically this starts with the management acting as a coach or mentor to clients, complemented by external paid or voluntary business advisors, business professionals and advisory boards. A detailed business development program will need to be developed as a part of the implementation in conjunction with the management team, who need to "own" such a program and any associated manuals.

<u>Pre-incubation and post-incubation</u>: Pre-incubation programs are growing in popularity. They typically involve specially designed workshop programs, business plan training/competitions and/or intensive on site coaching in small flexibly configured workspaces, to help people with

good ideas to prove the concept and become incubation ready. They not only help develop the incubation market but also have value in their own right. With a large number of potential entrepreneurs in West Bank/Gaza and only a small number of very early stage companies this may need to be an important feature of PICTI services.

Post-incubation programs help graduating clients move to alternative accommodation and can continue to provide business development services as required. In an ideal world, the clients will graduate from a physical incubator to accommodation in proximity to the incubator so synergies that have developed in the incubator are not lost. Typically this occurs with incubators in technology parks. This should be considered in future planning in terms of post incubation space (does it exist and is it appropriate?) and continued provision of value adding services.

Physical vs. virtual incubation: After 10 to 15 years of experiments with virtual incubation, it is clear that physical incubation is more powerful than virtual incubation, as a result of the personal interactions that are only possible between residents in a shared building. In addition, it is equally clear that the best way to deliver virtual incubation is as an outreach service from a physical incubator. If ever there was a strong argument for virtual incubation, West Bank/Gaza is it. The current plan is appropriate but will need to be considered in more detail and will need to involve broadband and videoconference facilities to get the most out of any virtual meetings. Another exciting possibility is to involve external advisors and specialists, who may not be available in West Bank/Gaza but who can be accessed via videoconferencing anywhere in the world. West Bank/Gaza has worldwide social capital and goodwill that can be tapped for free professional advice.

Finance

Non-profit seed fund and for-profit VC fund: Securing finance for clients is a necessary part of incubation, and in particular, technology incubation. Seed funding is required at the proof of concept and early stage, and venture capital funding for later growth, typically around or after graduation from the incubator. Venture capitalists make their money from later stage investing, but may be prepared to invest at the seed stage to be able to have a look and cherry pick the best investments further down the track. Expecting to make good returns, if any return at all, from seed stage investing on its own is arguably unrealistic. This appears to be understood by stakeholders and the current plan is to have a portion of the VC fund made available for seed stage investing with PICTI clients. Seed funding may need to be considered in terms of equity investments, loans and convertible loans.

Another possibility that could be pursued is to establish a dedicated not-for-profit early stage seed fund by donation. In small, developed economies with weak venture capital markets such as Australia and New Zealand, the market failure in this space is well understood and governments are the bodies that grant the funds. In West Bank/Gaza, donors could be a source of donated investment funds. This also serve to would lessen the risk for private investors who invest at a later stage.

<u>Relationship between PICTI and VC fund</u>: To make arrangements work in what may always be an uneasy marriage between the VC fund and PICTI, careful design of the linkages between the

two is important. Stakeholders seem to agree that the VC fund should be separate and at arms' length from PICTI, but with formal linkages. We believe this is the best strategy to use. Some incubators have their own in-house investment funds, but this necessitates the incubator management having fund management experience as well as incubation skills, and can lead to conflicts between nurturing and the necessary hard-nosed approach to venture funding, not to mention conflicts of interest if only a proportion of clients receive an investment. Linkages already exist with Massar as a founding member of PICTI and with a position on the board. By having the VC fund separate, PICTI and its management can focus on incubation and provision of value-adding services to clients, which in the end is in the best interest of the VC fund, which will want good quality and screened deal flow. The other linkage that can be of practical value is to have the PICTI manager on the investment committee helping the VC fund develop recommendations for investment, so long as this does not compromise the manager (e.g., only one of three votes) and so long as the manger has the appropriate skill and experience. The manager can then bring to the table detailed knowledge of the client, reducing the VC due diligence and transaction costs.

Market

A detailed demand survey has not been undertaken to date. It would appear that the demand from ICT technology companies (the current target market) might be too small to sustain a viable incubator. We have discussed with stakeholders broadening the target market by including:

- ICT-related and ICT service companies
- International companies wishing to establish a beachhead in West Bank/Gaza and Palestinian companies wishing to internationalize, along the lines of the proven "international incubator" concept. This would help with the necessary task of helping Palestinian companies export to Europe and the Gulf at an earlier stage in their development than would be the case in the USA, but again similar to small countries like New Zealand, where there is simply no other alternative.
- Pre-incubation companies or, in lay terms, people with good ideas for proof of concept
- More mature small companies, which have been suffering in recent years and may benefit from virtual incubation and not require the more intensive services that are possible with physical on-site incubation

Early stage ICT technology companies would still be the primary market and would receive the most benefit from physical incubation. Broadening the market as suggested would improve the likelihood of self-sustainability as discussed above.

A demand survey will be required at some stage. While it would be nice to do this as a part of pre-implementation business planning, this may not be the best approach in the circumstances, as it would institute unwelcome delays. It could be undertaken as a part of the implementation phase because a good and well-designed survey not only gives data for analysis of the market

demand but also finds potential tenants. The initial business planning would have to make assumptions based on a higher level analysis/perceptions. The survey would need to address intenders as well as businesses. The demand survey could be far broader than just for the incubator and could take a wider industry approach and address training needs, finance needs and impediments faced (not just the obvious political and boundary impediments) by businesses and those wishing to start a business. This could give useful data not just for the incubator but also for other business training and advice/support programs and for the development of an overarching economic development strategy.

Governance

For the incubator to be successful, good governance is required that allows management the freedom to manage, without board micro-management or interference by particular board members or stakeholders. In our consultations and workshops, we outlined the importance of this and the fact that the board's role is one of setting strategic direction, securing resources, approving a policy framework and overseeing management, financial and outcome performance. We stressed that the proper relationship between the board and management is via the Chair of the Board to the General Manager.

The other pressing issue is to retain the current stakeholder alliance and to manage the inherent conflicts of interest by disclosure. Trying to avoid conflicts of interest is in the end almost impossible and can neuter the effectiveness of the Board.

Next Steps

We discussed a number of short-term steps that are required to bring the project to fruition (implementation phase).

Business Planning: The most immediate requirement is to re-work the business plan so it has a more concrete business model and more realistic financial projections. Ideally this would be done by a second visit in September where we would work with a local Project Manager appointed by PICTI. This would be an efficient way of working, with the local Project Manager injecting local knowledge and being able to work with us remotely. Having met many of the people involved, we have no doubt that the appropriate people exist on the ground in Ramallah. If possible rental premises could be identified in advance of this visit, then the planning will be more realistic.

This planning should develop a detailed implementation plan for PICTI and the associated seed funding, as well as the training and support inputs required. Management should undertake more detailed business planning focusing on the operational plan with external assistance as required, early in the implementation phase.

We have suggested remote assistance in late August and a 2-week visit in early to mid September.

<u>Appointment of a local project manager</u>: To keep up the momentum, we advocate expeditious appointment by PICTI of a local Project Manager to work with PRIZIM in the preimplementation phase, up until the management team can be appointed.

Additional donor financing: Additional funding may be required to secure/build or refit an existing building and to enhance the likelihood of achieving self-sufficiency. The proposed revision of the business plan should involve financial modeling to determine the costs of establishment of PICTI with a more robust business model. Based on this analysis, it may be desirable to seek further assistance from USAID.

Funding from the infoDev program is a further possibility that deserves to be actively considered. Prospects appear favorable. World Bank support would provide not only additional financial resources, but also serve to raise PICTI's profile and make PICTI an incubator supported by the international community, not just the U.S.

USAID support could count towards satisfaction of counterpart funding requirements. infoDev sets limits on how its grant may be used (see http://www.infodev.org/incubator/). If PICTI sponsors are committed to applying for an infoDev grant, sending a PICTI representative to infoDev's Berlin workshop in late September-early October would be an important first step.

Itinerary

Date	Activities
Wed, 09 July	Dinyar Lalkaka and Julian Webb depart for Ramallah
Thu, 10 July	Arrival and meetings with William Cain and Ibrahim Barakat
Jerusalem	
Fri, 11 July	Meeting with Dr Mashhour Abudaka, Executive Director PITA
Jerusalem	Finalization of 1 st workshop program
Sat, 12 July	Meetings with PITA, Dr Mashhour Abudaka, Yahya Dijani (PBC)
Ramallah	Meeting with Bashar Masri
Sun, 13 July	1 st workshop with PICTI board of directors
Ramallah	Meeting with Lubna Katbeh (Massar)
	Meetings with potential tenants (Wahat Altatechnologia and ASAL)
Mon, 14 July	Meeting with potential tenant (Nukhba Computers)
Ramallah	2 nd meeting with Lubna Katbeh
	Meeting with Bashar Masri
Tues, 15 July	2 nd workshop with PICTI Board of Directors
Ramallah	Meeting with William Cain at PRIZIM
	Meeting with Exalt Technologies (leading IT business and ex-joint venture partner with Siemens)
Wed, 16 July	Meeting with Maher Masri, Minister for National Economy (Ramallah)
Ramallah/Tel Aviv	Meeting and presentation for USAID (Tel Aviv)
Thu, 17 July	Dinyar Lalkaka: Meeting with William Cain on development of a national incubator
Ramallah	program in Palestine
	Meeting with Bashar Masri
	Meeting with PITA Board members and Yahya Dejani
	Julian Webb departure
Fri, 18 July	Dinyar Lalkaka departure
Tel Aviv	

Annex 1: Presentations

"Business Incubation Essentials", Presentation to PICTI Board Members, July 2003

[&]quot;Incubator Overview", Presentation to PICTI Board Members, July 2003

[&]quot;Summary Recommendations", Presentation to PICTI Board Members, July 2003

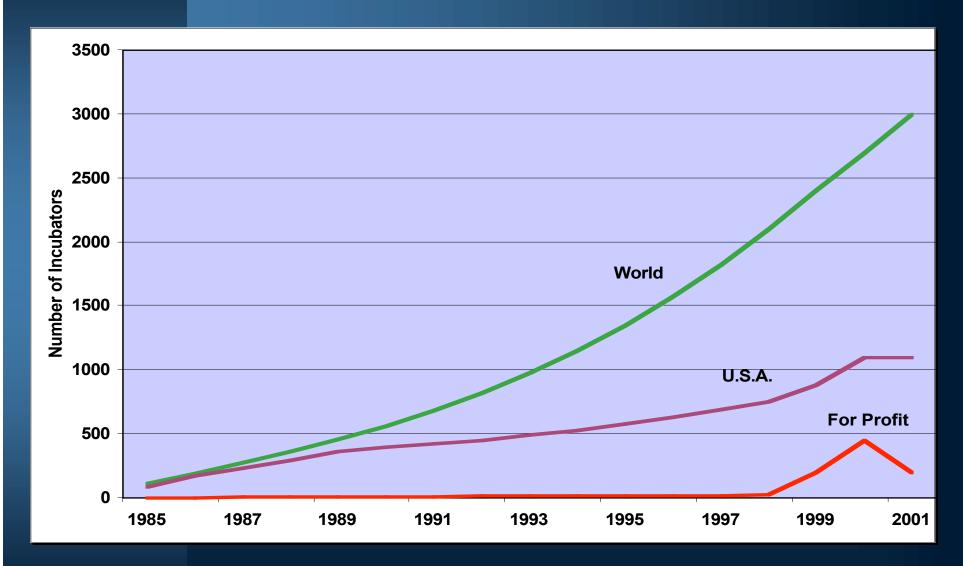
Workshop One
Presentation to Board Members
Palestine ICT Incubator
Ramallah, Palestinian Territories
July 13, 2003

Business Incubation Essentials

Dinyar Lalkaka

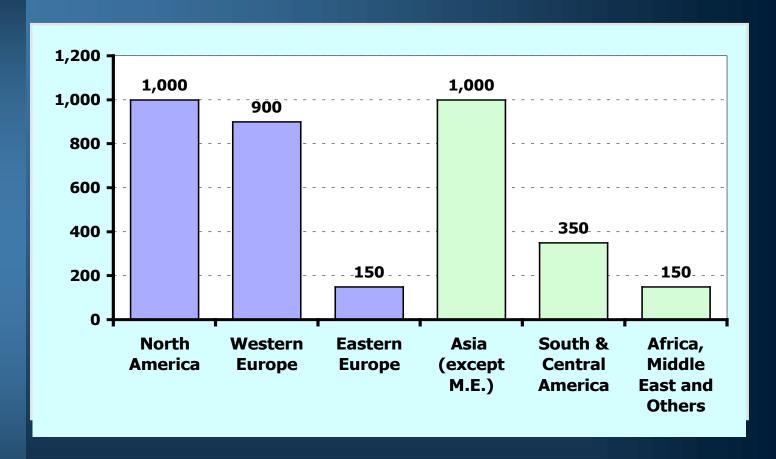
Consultant to
The Services Group

Incubators Have Grown Rapidly





Incubators in Asia have developed rapidly



There are probably more incubators in Asia than in any other continent!



Evolution of the Incubator Model

1970s

Early 1980s

Mid 1990s

Late 1990s

Managed Enterprise **Industrial** Workspaces Agencies **Estates** Business **Basic Business** Science **Incubation Model Parks** Centers Multi-Purpose Incubators Specialized Incubators **Technology** Empowerment **Incubators** Incubators Without Walls Incubators Virtual New Economy **Incubators** Incubators

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Source: Centre for Strategy & Evaluation Services



Incubators are growing in numbers due to their distinctive features:

- → Quality, affordable space and shared facilities that startups cannot readily afford or secure
- One-stop facility to receive counseling, training, and information, under one roof
- → Help in accessing finance which traditional sources are reluctant to provide
- Networking to mobilize local business and technical resources
- → Facilitation to tackle burdensome regulations
- Opportunities for entrepreneurs to learn from each other



Some Myths About Incubators

"Incubation is a simple concept, easy to implement"

Often difficult to adapt to local cultures when infrastructure is weak and entrepreneurial culture was repressed.

"The incubator is a building with shared facilities."

Business services, networks of relationships and access to capital are as, if not more, important.

"Incubators make money"

Typically not for initial 3-5 years, and break-even thereafter.

"Incubators rapidly create employment"

Only over the longer term. Incubators accelerate enterprises, some of which grow rapidly to create jobs directly and indirectly.



Olympiad of Venture Creation

UNIVERSITY

Research Learning

GOVERNMENT

Supportive Policy Infrastructure

BUSINESS

Process/Products
Sub-contracting

PROFESSIONAL

Support Services Networking

COMMUNITY

Cultural Change International

BUSINESS INCUBATOR

New Venture Creation



Incubator Sponsors and Goals

Sponsor	Desired Goals
Government	Regional development, growth, equity
University	Innovation, faculty/graduate role
Innovation	Research commercialization
NGO, public-private	Empowerment, employment
Corporate sector	Profit, patents, equity, image
Venture Capitalist	High return on private capital

Having multiple sponsors creates some problems but many strengths

Why do incubators fail?

For the same general reasons their tenants do!

- → Poor preparation market study, biz plan, initial implementation
- → Inadequate capitalization
- → Lack of demonstrable benefits to sponsors, unrealistic expectations
- ⇒ Excessively small space, poor location, unsuitable layout
- → Poor governance micro-management, no consensus
- → Lack of dynamic General Manager
- → Poor operating practices, failure to grasp incubation basics
- → Weak biz-model, dependence on rent alone
- → Lack of value-adding client services, weak linkages to local service providers, universities and gov't agencies
- → Poor monitoring and evaluation



Incubators Should...

- → Serve start-up firms with growth potential 'big companies which happen today to be small today'
- Provide workspace + services + networking
- → Be flexible in design, Starting with Who? Why? Where? How?
- → Be "networked" to business resources in local area E.g., university, tech-park, private enterprises, etc.
- Establish rigorous entry criteria and flexible exit
- Serve a broad variety of enterprises Mixed-use and tech, special purpose (empowerment, arts, kitchen), urban and rural



Ingredients of Success

- Gov't policy and financial support for incubation
- Established as public-private partnership
- Strong educational and business infrastructure
- → Linkages to knowledge-based institutions
- Availability of high quality consulting services
- → Network of strategic partnerships
- → Entrepreneurial and well-trained management team, with remuneration linked to performance
- → A pro-active Managing Board to mobilize support and mentor client companies



Incubator Overview for PICTI Board Members

Julian Webb CREEDA Australia TSG USAID PICTI Project July 2003



Incubator Generations/Evolution

Generation	Determinant
1st Generation	Real estate and shared services
	Reactive business help
2 nd Generation	+ business development program and coaching
	Proactive business help
3 rd Generation	+ in house equity/debt finance for clients or channels to external providers
	Partnering with the business

- Accommodation on monthly flexible terms
 - "easy in easy out"
- And, virtual incubation program ("incubator without walls" or outreach service
 - Using broadband and ICT as "walls"
- Quality business development program
 - Tailored to the needs of clients
 - Networks of professional support
 - Advisory boards and mentors

- Pre-incubation programs
 - Nurturing the incubator market
 - Of value in its own right
 - Virtual
- Helping clients secure venture & debt finance
 - Seed stage
 - VC stage
- Support for the person
 - There is always a person behind a business
 - Personal growth

- Networking
 - Between tenants & clients
 - In the community
- A professional dynamic environment
 - Office services, broadband Internet, communications infrastructure, meeting rooms etc
 - A good location from which to do business
- Good selection of tenants & virtual clients
- Channels to markets
- A business in its own right

- Post incubation
 - Ideally on the same site

Incubator Essentials

- Client selection quality
- Stress Relief for tenants/clients
- Critical mass of tenants/clients
- Property base scale
- Business development program
- Graduation
- Focus on business development and growth
- Seed funding for clients
- Integration with other business development and finance services
- Social capital generator
 - Linkages and trust and a catalyst in a community

Key Entry Criteria

- Picking winners
- Typical and key criteria
 - Quality management team, or the willingness to build one
 - Viable global market opportunity
 - Innovative product or service
 - Protectable technology
 - Investable opportunity ability to exit from the investment
 - Preparedness to provide the Incubator with up to 5% equity and to be coached
 - Preparedness to provide equity to investors in exchange for finance

Typical high tech graduation criteria

Graduation criteria by business milestones:

- Development of a quality business & exit plan
- Quality management team in place
- Proven technology
- IP Protection
- Proven market
- Adequate investment partners VC funding 1st or 2nd round

Lessons - Outreach and Virtual Incubator Without Walls

- Not as powerful as with walls
- Using ICT & broadband to link clients and management and deliver services
- Outreach from a physical incubator
- Need depends on the state of other services available
 - E.g. Australia most incubators are physical because numerous other business development and finance programs exist

Lessons - Outreach and Virtual Incubator Without Walls

- Need a viable property based hub to succeed financially
 - Limited income potential
 - But need a good resource and staff base
 - Best developed out of a physical incubator

Incubator Models?

- Principles for adaptation rather than models
 - Despite differences all share common characteristics
 - Call anything an incubator model has muddied the water
- Incubators will vary between countries and regions depending on the local conditions, culture and the range of other business development services available

Business Models

Determined by stakeholders and their expectations:

- 1. Requirement for financial self sustainability
- 2. Or, commitment to ongoing funding

Business Model	Key Features
Revenue from	Financially Self sufficient
tenants	"Free" buildings
Rent (40 to 60%)	Minimum economies of scale
& services	(Australia 1,500 sqm, USA/Europe 3,000 sqm, China
Proven & common	6-10,000 sqm)
Reliant upon revenue	Very deep pockets
from investment in	Not a reliable revenue source, but can
tenants	be good investments
Not proven	
Ongoing Public	Allows a focus on incubation rather
Funding	than financial viability

Financial Self Sustainability

- If incubators need to survive on their own financially then:
 - "free" buildings are required
 - Peppercorn rental
 - Usually publicly owned
 - Funds to buy or construct
 - Someone else paying the rent
 - Adequate funding for the incubator is critical
 - Scale is critical
 - Management will need to work for sustainability

Lessons - Economies of Scale for Financial Viability

- 1500- 4000sqm (Europe, USA & Australia), 30+ tenants
- Without adequate scale, services suffer, financial problems arise & outcomes do not meet expectations. A downward spiral occurs. Management spends time chasing other income streams
- The concept works better when they are larger
- Regional incubators & networks are the emerging trend

Financial Dependence

- If incubators are not expected to be financially self sustainable then:
 - Long term operational funding is critical
 - Management can focus on incubation rather than financial self sustainability

Making profit out of incubators

Profits and wealth are made by:

- Successful clients making profit and wealth
- Investors who invest in clients
 - Seed stage is high risk and best profits come from cherry picking the graduating companies, after seed funding
- The incubator itself is not a good way to make profits
 - But the incubator can share in the up side with a small equity stake as a condition of entry

3rd Generation Incubators

- Incubators as a tool to lever finance for clients
 - Venture capital and debt finance
 - 33% of USA incubators have in house investment funds
- Minimizing the risk for an investor
 - Business development services
 - >80% survival rate
 - Lower transaction costs
 - Personal knowledge of tenants
 - Incubation or venture finance?
 - Where is the line?
 - Conflict of interest?

Lessons - Integration with other business development services

- To avoid isolation, duplication & political flack
- To complement the work of professionals and other agencies
- To capitalise on other activities
- To cut costs
- Won't survive otherwise
- Helps develop Social capital and maximise the catalytic intangible benefits

Workshop Two
Presentation to Board Members
Palestine ICT Incubator
Ramallah, Palestinian Territories
July 15, 2003

Summary Recommendations on the PICTI Business Plan

Dinyar Lalkaka and Julian Webb Consultants to TSG/PRIZIM

Sustainability

Incubation Models

The Problem: PICTI's financial sustainability should be assured

Best Practice: Three roads to sustainability:

- free building
- ongoing subsidiesequity investment

Equity investment alone has not proven to be a viable strategy. Free building may be best single model, but optimal overall model is combination of all three

Recommendation: PICTI combine all three models

Timeline to Sustainability

The Problem: Sustainability may not be achievable before donor funding concludes

Best Practice: Typical non-profit incubators require 3–5 years to reach sustainability. Given conditions in Ramallah, at least 5 years may be necessary

Recommendation: Raise sufficient initial funding, and make fund-raising an ongoing activity. Seek additional resources for the acquisition of a PICTI-owned incubator building

Workspace

Own vs. Rent

The Problem: PICTI may not have resources or time to acquire a site and building of its own

Best Practice: Own (receive as gift or buy at below-market cost from local gov't) or pay token rent

Recommendation: OK to rent in short-term, but should seek to acquire own property in medium-term

Minimum Scale

The Problem: Present plan, based on estimate of limited demand from target market, is for space of 900 sq.m.

Best Practice: Workspace income covers >50% of operating costs, assuming free or near-free building

Recommendation: Move to larger space (preferably in own building) of 15,000-20,000 sq.m. Redefine target market as appropriate to fill larger space

Additional Considerations

Best Practice:

- → Location should be central and readily accessible
- >60% of gross area should be rentable to clients
- → Layout should be conducive to promoting interactions between clients and between clients and staff

Business Development Programs

Pre-Incubation

Problem: Large number of potential entrepreneurs and very early stage companies

Best Practice: Pre-incubation program, involving specially designed workshops and intensive on site coaching in small flexibly configured workspace, to help people with good ideas to prove the concept and become incubation ready

Recommendation: Include pre-incubation in PICTI model in order to develop future demand for the PICTI incubator and enhance outreach

Networks

Problem: Provide broad-range of high quality professional services in a cost-effective manner

Best Practice: Quality business development program including mentoring, advisory boards and use of networks of private business professionals

Recommendation: Incubator staff should provide the core business coaching, complemented by support from external service providers and specialists, with costs subsidized by the incubator. Services from outside Ramallah may be provided virtually

Client Finance

Finance Types

The Problem: Securing proof of concept, seed and venture capital finance for clients. Clear market failure with proof of concept funding

Best Practice: In house or associated seed finance and links to venture capital

Recommendations:

Pre-seed funding for proof of concept capitalized by donations and grants in a not-for-profit fund

Seed funding (equity, debt and convertible loans) dedicated to PICTI incubation clients, and venture capital – from the VC fund being established in Palestine and capitalized by private investment

PICTI & Venture Capital

Problem: Relationship of PICTI to the VC Fund

Best Practice: Arrangements that allow professional funds management, shield the incubator from venture capital investment risks and do not compromise the incubator's focus on nurturing its clients

Recommendations:

The for-profit seed/venture fund should be separate, but have formal linkages to PICTI

PICTI may wish to consider taking a small equity stake (<5%) in client companies in consideration for the subsidized business development services provided



Demand and Target Market

Problem: Lack of demand survey. Demand from target market may be too small to sustain a viable incubator. Need for local firms to internationalize and need to attract expat and international firms to West Bank

Best Practice: Conduct demand analysis, including survey, focus groups, etc., to confirm demand and help define the target market

Recommendations: We visualize demand as arising from three sources: ICT, ICT-related and international

In terms of stage of company development, PICTI could target companies ranging from the concept stage through early stage and growth stage

A market study should be conducted in the early implementation phase to quantify effective demand and refine the scope of the target market

Physical vs. Virtual

Problem: Difficulties of travel in the West Bank, need to expand outreach

Best Practice: Physical is more powerful, and virtual is best projected from a physical hub

Recommendation: Provide virtual services from the physical incubator and by a network of service providers. Virtual clients would include all those unable or unwilling to relocate to the incubator in Ramallah

Use occasional visits, phone, email and video conferencing to provide virtual business support

Governance

Structure, Board and Management

Problem: Developing governance that resolves stakeholder differences and allows management to manage

Best Practice & Recommendation:

NGO structure drawing together public and private stakeholders

Board's role is to set strategic direction, approve and provide oversight

OK for Board to have differences, but once Board reaches a decision all members should be unified.

All communications from the Board to the GM must be through Chairman of Board

Conflict of Interest

The Problem: Managing conflicts of interest

Best Practice: Conflicts of interest are inevitable and should be managed by an explicit conflict of interest policy

Recommendation: Development of a formal conflict of interest policy based on open disclosure and registration of interests

General Manager

High Quality GM is Key

Best Practice: The caliber of the General Manager is arguably the single most important incubator success factor

Recommendations: To secure a high caliber GM, adequate remuneration and incentives will need to be provided, with governance procedures and contract arrangements that allow management to be independent of particular stakeholder interests and board micromanagement

The manager must be someone who can build local networks and trust, understand local business culture and develop a personal rapport with clients and serve as a local role model

Next Step

Work together to revise preliminary business plan prior to formal launch of PICTI project

USAID PRIZIM Project PICTI Trip Report

Annex 2: Application Forms

CREEDA Application for Accommodation

Epicorp Business Selection Criteria and Application Form

The Services Group Page A- 2

CREEDA BUSINESS CENTRES

APPLICATION FOR ACCOMMODATION

Submitted by

Name:	•••••
Business:	

IN CONFIDENCE

CREEDA BUSINESS CENTRES

APPLICATION FOR ACCOMMODATION

Please answer all questions and sign the application where marked.

Business Name Re	egistration Number / ABN:	
Business Type:	Sole Trader Partnership	Company Association
Company Name a	nd ACN No. (if applicable):	
Nature/Type of B		
	ess Principals/Owners (author	ised to sign Licence Agreement)
Name:		
Residential Address	38:	
		Postcode
Phone:(h)	(m)	(w)
Email:		
		Postcode
	(m)	(w)
Phone:(h)		
Phone:(h) Email:		
Phone:(h) Email: What is the name		nt: (if you have one)

Names of 2 <u>refe</u> Name		ddress		Phone Number	
*			-	none i (unioei	
k					
Have you run a	business befor	re? (Please circle your	answer.)		
NO	YES	(If YES, please g	ive brief detai	ls)	
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This Page CREEDA Office Use Only

Business Nan	ne:				
Licence Agre	ement Type:	Tenant	Virtual Tenant		
Term of Tena	ncy – for Lice	nce Agreement			
Start D		/	/		
End Da	ate	/	/		
Centre:	Downer	Narrabundah	John Knight Erindo	ule	
Accommodati	ion:				
	Office Rental	Storage			
Room No:		Building:			
Floor:	Ground	First			
* Establishme	ent Fee:			\$418.00	
Photocopy C	ard Deposit:			\$ 20.00	
* Rented Are	ea:				
sq mtr	rs x (rate p/m2)	\$	Γotal per/mth:	\$	
Pro-rata rent	al for the perio	od / /			
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Copy Card:		Yes	No		
Sign in Date:					
Number of K	eys:		Additional Keys:		
Type of Licer	nce Agreement	: Sole Trade	er Company P	ty Ltd	Anchor

CREEDA BUSINESS CENTRES TENANT BUSINESS REVIEW SUMMARY

(In Confidence)

Business NameDate
Describe the nature of your business .
What business experience and skills do you have to handle the business <i>management</i> affairs?
What technical knowledge, experience and skills do you have to <i>produce</i> the business products or services?
What skills do you need to develop the business further?
What is your personal motivation for operating the business?
What are your long term goals (mission/vision) for the business? To what extent are you prepared to grow the business beyond sole trader status?
Are there any special regulations and licences your business needs to comply with?
What business structure will/do you operate under?

MARKET INFORMATION

1 THE PRODUCT OR SERVICE

What **products or services** does the business provide?

How do you know there is a need and demand in the marketplace for your products and/or service?
What is the extent of this need and demand for your products and/or service in the marketplace?
Does the product and/or service currently address these needs/demands or does it need further development or modification ?
What are the special attributes of your product/service that gives them a 'sustainable competitive advantage' or 'point of difference' from other like products/services.

2 INDUSTRY DETAILS

Clearly identify the **industry** the business operates in. (ie: What business are you in?)

What are the **major trends** in this industry?

What **opportunities** for your business do these trends offer?

How do you keep abreast of developments that affect your business?

Describe how the business will **respond to changing circumstances** in the environment in which it operates?

What is your prediction for the **outlook** for sales and profit within the industry? What information is this based on?

3 CUSTOMERS

What **market segments** have you identified for your products/services?

What are the demographic (numbers, location), sociographic (status) and psychographic (lifestyle) attributes of your potential customers?

What are your potential customer's **psychological and behavioural characteristics** in regard to purchasing similar products/services? (ie: What type of person are they? What are their motivations for purchase? How do they buy similar products/services?)

How large is the potential market (**market size**) for your products/services?

What is your strategy to enter the market (**market penetration**) or realistically gain a (larger) share of the market (ie: **market share**) over time?

How will/have you address(ed) **barriers to enter the market** (cost, investment, time, technology, key personnel, customer inertia, etc)?

4 THE COMPETITION

Where do potential customers currently buy **similar products/services** the business will supply?

Who (and where) are your **major competitors**?

What do you know about your major competitors? (eg: What is their size, market share, financial position, reputation, staffing expertise, etc)?

5 BUSINESS IMAGE

How do you want your business to be **perceived** by your customers?

How will you **brand** your business to achieve this perception?

6 PROMOTION

How will/do you **communicate** with your potential market and existing customers to **promote** (advertise) your product or service? (How will you attract their **attention**, create an **interest**, stimulate a **desire** for your product and structure an **offer** that drives them to take **action** to purchase your product/service)?

What will/does this **cost** annually?

7 SALES

How will/do you **sell** your product or service to you customers? (What is your sales strategy)?

What is your **expected level of sales** in the next 12 months?

What is the **expected growth in sales** after that?

What percentage of sales will be from **repeat customers** (up, cross and on selling)?

What plans do you have to **grow your sales** by:

- Exposing your existing products/services to new markets (ie: attracting new customers)
- Enhancing the use of existing products/services to your existing markets (up-selling)
- Introducing new products/services to your existing market (cross/on-selling)
- Introducing new products/services to new markets (referral selling)

8	PRICING

8 PRICING
How have you worked out the price for your product or service?
What is the cost (to you) to provide your products/services?
BUSINESS OPERATIONS INFORMATION
What are your buying, supplying and stocking plans ?
From where will you sell, administer and supply your products/services (store, office, showroom, warehouse location)?
What responsibility and authority will you take in general administration and the operation of daily procedures? How will administration and operational policy be determined, directed and controlled?
How will you organise accounting and financial control issues?
What are your credit collection procedures?
What is the actual and potential production capacity you can carry to handle varying workloads.
Describe the timing and implementation schedules and their interrelationships regarding production of your product/service?
What are your immediate personnel and employment plans?
What Quality Assurance procedures/systems have you developed?

How will you evaluate and monitor your operations to ensure they work efficiently
--

Are their any **critical, unpredictable or unresolved issues** to deal with? (eg: unproven marketing or technical issues)

FINANCIAL INFORMATION

How n	nuch ca j	pital (\$money) do you estimate you w	ill need to operate the business?
	a)	Set Up/Establishment Costs	\$
	Detail:		
	b)	Working Conital (Novt 6 months)	\$
	b)	Working Capital (Next 6 months)	φ
	Detail:		
How a	ıre you r	raising this finance ?	
What a	are your	personal assets and liabilities?	
What a	are vour	personal expenses each month? (Ho	w much do you need to live on)?
	J		·
How a	ire voli r	planning to cover nersonal expenses o	luring the business establishment/growth?
110 W C	ne you p	ordining to cover personal expenses c	dring the business establishment growth.
D1	44 1	and flow by José marinetica f	
		a cash flow budget projection for your sons have you made in preparing the cases.	our business for the next 12 months and provide ash flow figures.

epicorp business selection criteria and application form



Epicorp Limited (Epicorp) is the Australian Capital Region's technology commercialisation centre. Epicorp fosters the development and commercialisation of new-start and spin off businesses in the region by delivering tailor-made assistance specific to the development needs of the organisation concerned.

Businesses eligible for Epicorp assistance should be start-up businesses with information technology and communication as a key business driver. Epicorp offer a comprehensive support package to these businesses including

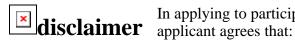
- Specialist business development services, including assistance developing and implementing business and marketing plans;
- *Support services*, to protect and manage IP, establish advisory panels for businesses and assist with building management teams;
- *Channels to market*, to refine opportunities with market research and market links;
- Flexible accommodation, to allow new start ventures to focus on core business:
- State-of-the-art communication infrastructure, to assist businesses access the latest technology; and
- Seed funding and access to later-stage finance.

In addition, eligible businesses must be actively conducting business, and cannot be involved in

- Providing capital, purchasing debt or leasing;
- Development, hosting or distribution of prohibited content (eg: pornography); or
- Utilising Epicorp funds other than for commercialisation of agreed business opportunities.

If your organisation meets these preliminary criteria, please complete and submit the attached form, and we will be in touch shortly.





In applying to participate in the Epicorp Incubator Program (Program) the applicant agrees that:

- it has decided to apply to participate in the Program voluntarily, based on its own assessment of the Program and of any benefit to be obtained by it in participating in the Program, and has satisfied itself as to the accuracy and completeness of any information provided to it by Epicorp concerning the Program;
- admittance into the Program is at the sole discretion of Epicorp. Epicorp may, but is not obliged to, provide feedback to the applicant concerning its application to participate in the Program;

- Epicorp is not liable for any loss, damage, cost or expense incurred or suffered by the applicant if it is unsuccessful in its application to participate in the Program; and
- Epicorp makes no representation, express or implied, as to the accuracy or completeness of any information provided to the applicant, or as to the likelihood of the applicant being accepted into the Program, or as to any benefit to the applicant of participating in the Program.

contact information	Organisation	
	First Name	
	Last Name	
	ACN/ABN	
	Postal Address	
		<u> </u>
	Steet Address	-
	Home Phone	
	Work Phone	
	Mobile Phone	
	Fax	
	Email	

	Website	
		×
company	Describe the nature of your business	
nformation		
		~
	What products or services does your business provide?	
		<u>~</u>
	What problems or needs does your product/service address? (ie: what is your target market?)	
		<u>~</u>
	Who are the potential customers in this market?	
	Where do potential customers currently access similar products/s	services?
	· · · · · · · · · · · · · · · · · · ·	
	What is the current stage of development of your business?	

	How do your professional experience, technical knowledge and education relate to the technology and management of your business?
	What level of funding do you believe the business will require?
	How will these funds be raised? (eg: own assets, friends, family, bank finance, seed fund, venture capital etc.)
	(eg. own assets, friends, ranning, bank finance, seed rand, venture capital etc.)
	How will this money be spent in developing the business?
	×
client expectations	What would you like to achieve through a relationship with Epicorp?
	How did you hear about Epicorp? details





Click the Next button when you have finished - you will be able to review **submission** your answers.

Next >

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